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C O N F I D E N T I A L SECTION 01 OF 05 BAKU 000970

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SUBJECT: PRESIDENT ALIYEV, DEPUTY SECRETARY DISCUSS REGIONAL SECURITY, ENERGY AND DEMOCRACY

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Classified By: Ambassador Anne E. Derse, reasons 1.4 (b,d).

¶1. (C) Summary: President Aliyev, meeting with Deputy -Secretary Negroponte on October 2, lauded the timely September visit of Vice President Cheney and re-emphasized the importance of further enhancing U.S.-Azerbaijan relations in the aftermath of the Russia-Georgia conflict. President Aliyev, pointing to instability in the region, called for greater dialogue with and between "big powers" to clarify issues and resolve conflicts. The Deputy Secretary thanked Aliyev for Azerbaijan's up front assistance to Georgia in August; Aliyev noted that Azerbaijan cannot be involved in a conflict with Russia. The President noted the absence of a security umbrella in the Caucasus and called for "more practical elements in our security cooperation that can answer our security concerns," including sales of U.S. defensive military equipment, so "Russia and Iran understand that Azerbaijan is not alone." On energy and the Southern Corridor, Aliyev complained of Turkey's obstructionist tactics and a "passive" Europe, and warned that Central Asia -- Kazakhstan and Turkmenistan -- may be getting cold feet on further cooperation. The President suggested that the Southern Corridor project should begin with Azerbaijani gas, based on additional AGC/AIOC gas that is currently re-injected. Turkey and Turkmenistan should continue gas supply discussions; Azerbaijan could then build a Caspian inter-connector. Natural gas supply talks with Gazprom have not panned out, as "market price" is not commonly defined. Aliyev said that the October 15 presidential election will be held in "a normal atmosphere." The Deputy Secretary pressed for resolution on the New Embassy Compound. Embassy believes time is right to launch a concrete, exploratory dialogue at a senior level to begin a serious discussion on what is needed and what is possible to strengthen security cooperation. Septel reports discussion of Nagorno-Karabakh. End Summary

¶2. (C) Deputy Secretary of State John D. Negroponte, accompanied by Ambassador Derse and Deputy Assistant Secr etary of State for European Affairs Matthew Bryza, met with President Aliyev for an hour and half on October 2 in Baku. Aliyev's International Relations Advisor Novruz Mammedov joined the meeting. The Deputy Secretary and President discussed regional developments after the Russian invasion of Georgia, energy cooperation, US-Azerbaijan security cooperation and prospects for resolving the Nagorno Karabakh conflict (septel).

Enhanced Security Cooperation Needed in Insecure Region

¶3. (C) The Deputy Secretary underscored to President Aliyev the value the USG attaches to the relationship with

Azerbaijan, especially at this critical time in the history of the region. President Aliyev agreed, welcoming the Deputy Secretary's and the Vice President's September 3-4 visit as "very important from all points of view." Aliyev said US-Azerbaijan relations are developing successfully. The Vice President's visit took place at the "most critical period" for Azerbaijan since it gained independence and is an important reflection of the new level of relations. After the Russian invasion of Georgia, the regional security dimension of US-Azerbaijan relations is more important than ever before, Aliyev said.

¶4. (C) Aliyev expressed great concern with the uncertain regional situation, saying it remains very unclear how developments will unfold in the wake of the Russian invasion of Georgia. Much depends on the steps taken by the "big powers" -- the US, EU, Russia, Iran and Turkey, he said. Azerbaijan is pleased by the increased attention to the region, but would prefer to have a better idea about what will happen in the future. The Deputy Secretary agreed the situation is not clear, and told Aliyev that the US and Azerbaijan should look for practical, pragmatic ways to strengthen relations, including on energy. The USG understands the hurdles Azerbaijan must overcome to export its energy resources to world markets, and wants to cooperate.

Energy: Reticent Central Asia, Obstructionist Turkey and Passive Europe

¶5. (C) Aliyev agreed, saying that US-Azerbaijan cooperation has been "decisive" in the implementation of strategic energy projects in the past. Azerbaijan has the resources and, with

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strong US support, joint energy projects have been successfully implemented, despite obstacles from "north and south." Continued US support is crucial for future projects. Implementation of energy projects is more difficult today because problems are arising from unexpected quarters, like Turkey. The situation in Georgia also threatens the viability of the southern route, with war, explosions and stoppage of transport making the route seem unsafe. As a result of Russia's actions in Georgia, Azerbaijan suffered substantial direct economic costs, but it was worse for Georgia, which lost territory. Azerbaijan remains concerned with the precedent set in Georgia for recognition of separatist territories in the Caucasus. (Comment: in a separate discussion, BP Azerbaijan told USG interlocutors that there will be "plenty of gas" for Azerbaijan to sell to Georgia this winter as a result of oil production problems at the offshore ACG oil mega-field and related technological prohibitions on re-injecting the gas. End Comment.)

¶6. (C) Elaborating on the uncertainties stemming from the Georgia crisis, Aliyev said that there are now more questions about the possibility of Central Asian energy resources reaching the West through Azerbaijan. Kazakhstan has changed its plans to make major investments in Georgia, and is showing "less enthusiasm" for the trans-Caspian transport option. European countries are duplicitous, working with Russia on South Stream, despite the fact that they are NATO and EU members. Many, especially EU members themselves, are "passive."

¶7. (C) Aliyev cautioned that the future of the Southern Corridor will be decided in the short term. He suggested that projects supporting the Corridor can be launched in the first instance with only Azerbaijan's gas resources, not relying on Turkmenistan's. "This is best, if we wait for them they will think they are too important." Most of the infrastructure is in place, and only two major steps are needed. First, BP/AIOC must agree to supply more gas to Azerbaijan, including associated gas that the consortium

currently re-injects in the ACG field to produce more oil. Under the terms of the PSA, if not re-injected, this gas must be supplied free of charge to Azerbaijan. It is very important that BP hear a strong message from the USG to get in line with the common strategy on the Southern Corridor. Second, Turkey must be convinced not to demand 8 bcm of gas from Azerbaijan. If Turkey persists in this demand, "Nabucco will not happen."

¶ 8. (C) Aliyev confirmed to the Deputy Secretary that "our policy remains absolutely unchanged, we are ready to move forward." Turkish President Gul, PM Erdogan and Energy Minister Guler "say yes, yes, yes, -- but nothing happens." Gazprom offered Azerbaijan a market price, but "their idea of a market price is different from ours." (COMMENT: FonMin Mammadyarov later told the Deputy that Azerbaijan's discussions with Gazprom on gas sales had "failed" because Gazprom had proposed an unacceptable formula for determining a so-called "market price." END COMMENT.)

Turkey Still Obstructing

¶ 9. (C) Aliyev said that in his assessment Turkey is now the most important obstacle. It is difficult for Azerbaijan to tell Turkey to ask for less gas, or to say it will not sell to Turkey gas crossing its territory. Turkey argues that it supports Azerbaijan, while the EU does not, and therefore does not understand why Azerbaijan wants to sell its gas to Europe. Aliyev urged that the US, the EU, Azerbaijan and the companies involved all combine efforts to convince Turkey to seek less Azerbaijani gas.

¶ 10. (C) In this context, Aliyev added, he was pleased that Guler followed his advice to approach the Turkmen directly to buy Turkmen gas at the border. "We can build the remaining part of the pipeline" to deliver the gas (from Turkmenistan to Azerbaijan). "There will be more volumes for Nabucco and for Turkey. This is the ideal solution." If this does not work, then Turkey must be convinced to seek no more than 4 bcm of Azerbaijani gas.

Georgia and Russia: Azerbaijan Protecting Its Interests

¶ 11. (C) The Deputy Secretary thanked Aliyev for Azerbaijan's

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quiet but strong support for Georgia. Aliyev said Azerbaijan was the first to speak out on behalf of Georgia's territorial integrity, and was one of the first to privately offer tangible support. Aliyev said he told leaders in Moscow that there was no question Azerbaijan would support Georgia's territorial integrity. Others in the CIS, except Ukraine, took a different position. Central Asia, Moldova and Armenia supported Russia. Uzbek President Karimov had reported that Moscow had asked all CSTO members to support its position, but they could not because of their own domestic problems.

¶ 12. (C) Aliyev said Azerbaijan's position on the crisis is straightforward, although it is not easy for Azerbaijan to maintain since it is neighbors to both Russia and Georgia. Azerbaijan cannot be involved in a confrontation with Russia, he stated. Azerbaijan has "normal" relations with Russia which it does not want to damage because "they are based on Azerbaijan's national interests, not concessions...we made none. They understand that." Russia even accepts Azerbaijan's energy policy, Aliyev said.

¶ 13. (C) "Our relations are settled. We do not want to damage them, nor upgrade them and become like Kazakhstan, Belarus or Armenia -- where the Russians can say do this, do that. They can't tell me what to do and they know that," he said. But the Georgian war, he worried, "could damage" Azerbaijan's efforts to maintain normal relations with Russia.

Security Cooperation

¶14. (C) The Deputy Secretary noted our strong bilateral security ties and asked what kinds of cooperation could further strengthen them. Aliyev agreed that bilateral security cooperation has been successful for many years, with MOD and with other GOAJ military elements. MNS cooperation on counterterrorism and information sharing with its USG counterpart is also very positive.

¶15. (C) In the future, however, Aliyev said, "I would like to see more practical steps to decrease our security concerns." Azerbaijan lives in a difficult region with "no NATO security umbrella. We have no military agreements with anyone, not even Turkey; they have refused since independence" to conclude a military agreement. Armenia, on the other hand, has Russia to guarantee its security through the CSTO. Russia will defend Armenia if it is attacked. Georgia was "under the shield of the West," but it did not help. Georgia was the country most supported by the West, even more than Ukraine. Given what happened there, "what can others expect?" Aliyev asked.

¶16. (C) The situation in Georgia is particularly dangerous, Aliyev said, because it shows that "Russia can do anything and nothing will happen." Georgia was provoked by Russia, and Russia's response was disproportionate: "What did Poti have to do with South Ossetia?" Russia occupied Georgia, and "can stay as long as it wants. They think they can do the same here, and elsewhere," Aliyev said. Iran is equally dangerous, because it does not listen to anyone and does not care about international norms. No one, not the US nor the Security Council, can influence them -- on the nuclear program, for example, Aliyev argued. This is a bad situation which shows Iran that, like Russia, "it can do anything it wants." Most disconcerting for Azerbaijan, both Iran and Russia remember that "Azerbaijan was once a part of them -- throughout our history, we have been divided between Iran and Russia."

¶17. (C) Given these factors, "we do not feel 100 percent safe and protected in this neighborhood," Aliyev said. Since independence, everything Azerbaijan has achieved to build up its military and defense capability, it did on its own. "Turkey did not help." "We do not feel ourselves safe," Aliyev repeated. "Our policy of modernizing the army is natural, we must defend ourselves. And we must buy weapons from those who are potential threats," like Russia, because Azerbaijan cannot acquire weapons from the US, Aliyev noted.

¶18. (C) Azerbaijan is interested only in discussing defensive equipment, Aliyev underscored. "That is what we really need." The situation with respect to Caspian delimitation, for example, remains unclear. Azerbaijan has new indications that Iran may make a move on the Alov field. Turkmenistan maintains a claim to the Kyapaz/Serdar field. The GOAJ recently had to send its Border Guard to ensure Turkmenistan

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removed vessels from Azerbaijan's waters. The situation in the Caucasus and the Caspian, in short, was fragile before; after the Russian invasion of Georgia, it is worse. "We would like to see in our security cooperation more practical elements that can answer our concerns," Aliyev repeated.

¶19. (C) Aliyev stated that Azerbaijan's good history of security cooperation with the US supports strengthened security ties. "Our cooperation on security issues has been efficient, practical, and broad, though not public. If we maintain such relations and obtain access to equipment it will contribute to stability in the region, because everyone will know that Azerbaijan can defend itself for longer than it can today."

Iran and Islam

¶20. (C) Aliyev told the Deputy Secretary that Azerbaijan's relations with Iran are satisfactory, although Azerbaijan does not understand how Iran can support Armenia while positioning themselves as defenders of Islam. Had Iran closed its border with Armenia, an NK solution would have been hastened. Azerbaijan shares a long border with Iran and while Azerbaijan is used to handling relations with Iran, Azerbaijan is not comfortable with this neighbor. There are 25 million ethnic Azeris in Iran, and it is an Islamic state.

In the North, there is growing Wahhabism coming from Dagestan and creating serious problems. A gang "from Russia" was responsible for the recent bombing of the Abu Bakr mosque.

¶21. (C) Azerbaijan's growing prosperity and strength will help it resist pressure from north and south, but "more visible signs of strong relations with the US and Europe," are important. "It should be clear that Azerbaijan is a country with solid ties to the West. That the West has interests here. It is very important for us, that Russia and Iran understand that Azerbaijan is not alone." Aliyev deplored that Western European leaders "never" visit Azerbaijan. "They do not notice us," he said.

Iraq and Afghanistan

¶22. (C) The Deputy Secretary thanked Azerbaijan for its support in Iraq, and explained that the Iraqi government's recent decision to reduce the numbers of coalition forces in Iraq is the result of Iraq's success in building up its own defense capabilities. Aliyev replied that he had always said Azerbaijan's peacekeepers would stay in Iraq as long as they were needed. Azerbaijan is planning to double the number of its forces in Afghanistan, and with respect to those leaving Iraq "we can talk, if more are needed in Afghanistan." Azerbaijan will also offer police and military training, engineers, doctors, after the recent visit of a high level GOAJ delegation to Afghanistan to discuss cooperation. Azerbaijan's cooperation in peacekeeping will continue, Aliyev confirmed.

Democratic Reform

¶23. (C) The Deputy Secretary asked Aliyev if he expected October 15 Presidential elections to be peaceful. Aliyev expressed his hope that they would be, but noted that elections in 2003 and 2005 had not been peaceful. In 2003, protesters took the main square and in 2005, protestors had tried to do the same, unsuccessfully. The atmosphere today is calmer, candidates are conducting their campaigns, with access to public TV and radio and meetings in the regions. Some parties are boycotting the elections, but that is their choice. The Council of Europe had assessed Azerbaijan's new election code as providing the basis for a free and fair election. The decision to boycott by the "veteran opposition" was a step "not to lose face" as they have lost one election after the other, and support, over the past fifteen years.

¶24. (C) The Deputy Secretary noted the importance of the ongoing bilateral dialogue on human rights and democracy. Aliyev replied that the dialogue is "very good, we support it, there is lots to be done. We are far from considering ourselves perfect with respect to democratic development, but we are moving in the right direction." Aliyev said Azerbaijan is sometimes accused with respect to media freedom, but such reports are "not true." The media is free,

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with many newspapers and growing internet use, including expanding internet use in schools, with one computer for every 29 students. Azerbaijan is a leading country for information technology. Organizations like Reporters without

Borders and Human Rights Watch are "not objective," although Human Rights Watch also criticizes western countries, Aliyev acknowledged.

¶25. (C) Aliyev argued that when people are poor they do not think about politics. Azerbaijan has reduced poverty from 49 to 16 percent, and it is "hard to find poor people" in Azerbaijan today. The political system is very new; Azerbaijan never had a political system before independence. This year's elections should be held in a normal atmosphere.

New Embassy Compound

¶26. (C) The Deputy Secretary expressed the USG's strong interest in moving ahead with constructing a new Embassy compound, which would be a potent symbol of the strength of our relations and USG engagement here. Aliyev agreed, saying he had offered a site for the new Embassy and wants to see it constructed. There are "some legal procedures" to be completed, but he had instructed his staff to accept the latest USG proposal to finalize the deal, if it can be done.

Comment

¶27. (C) President Aliyev altered his regional campaign schedule in order to return to Baku and meet the Deputy Secretary. Aliyev used the occasion, which was an important follow up to the early September visit of Vice President Cheney, to deliver important messages on Nagorno-Karabakh (septel) and regional security, with a familiar theme -- Azerbaijan is a staunch US partner, but feels vulnerable in what it sees as an unstable and insecure neighborhood. President Aliyev is welcoming US ideas on more intense engagement on security cooperation, as it needs greater defense capability. Azerbaijan wants to see more "practical" elements in security cooperation, including arms sales. Azerbaijan's neighbors, the President emphasizes, need to understand that the West has interests here and that Azerbaijan is not alone. President Aliyev's comments on Central Asia's reticence in terms of energy cooperation are disheartening, but his commitment to the Southern Corridor -- and his proposal to move forward on gas supply regardless of Turkmenistan's participation -- is encouraging. Turkey and transit remain the keys.

¶28. (C) Consistent with our interest in bolstering a key partner located on not only Russia's, but also Iran's, periphery, and consistent with our interest in ensuring Azerbaijan remains a stabilizing force and supporter of key US interests in a volatile region, we believe it is more important than ever to begin a serious discussion on what is needed and what is possible to strengthen security cooperation. Launching a concrete, exploratory dialogue at a senior level as soon as possible after Azerbaijan's October 15 elections (which Aliyev is widely expected to win) and before the end of the administration is key to shoring up Azerbaijan's independence of action and Western orientation in the face of new regional uncertainty and pressure.

¶29. (U) DepSec staff has cleared this cable.

DERSE